

LOCAL HOMESTEAD CREDIT REVIEW COMMISSION

DATE: May 30, 2013

CALLED TO ORDER: 6:05 p.m.

ADJOURNED: 7:28 p.m.

ATTENDANCE

ATTENDING MEMBERS

Beth Henkel, Co-Chair
James Steele, Co-Chair
Frank Mascari
Marilyn Pfisterer, proxy for Robert Lutz
Chris Pryor
Jack Sandlin
Dan Sellers
Joseph Simpson, proxy for Vop Osili
Jeff Spalding

ABSENT MEMBERS

Joseph O'Connor

AGENDA

- Present an analysis of local revenue, including retrospective and projected illustrations of trends, highlighting the effects of economic conditions and state enacted property tax caps, and a conclusion about whether there is a need to reduce or eliminate the Local Homestead Credit.
- What the local homestead credit is (and is not).
- History of the local homestead credit and why a property tax credit is funded by local income tax revenue.
- How the local homestead credit is applied to taxpayers' bills.
- Effect of property tax caps on the application of the local homestead credit.
- How the local homestead credit affects the budgets of civil taxing units other than the City and County.
- Which neighborhoods and types of homes benefit from the local homestead credit despite property tax caps.
- Whether changes in state law relating to income tax distribution and the local homestead credit are desirable.

LOCAL HOMESTEAD CREDIT REVIEW COMMISSION

The Local Homestead Credit Review Commission, created by the City-County Council, met on Thursday, May 30, 2013 at the Municipal Gardens, 1831 Lafayette Road. Co-Chair James Steele (former City Controller and Chief Financial Officer for the City-County Council) called the meeting to order at 6:05 p.m. with the following members present: Beth Henkel, Co-Chair (Local Attorney, former Department of Local Government and Finance Commissioner), City-County Councillor Marilyn Pfisterer (proxy for Councillor Robert Lutz), City-County Councillor Frank Mascari, Chris Pryor (Metropolitan Indianapolis Board of Realtors-MIBOR), City-County Councillor Jack Sandlin, and Dan Sellers (Chief Financial Officer for the Health and Hospital Corporation). Jeff Spalding (former City Controller) and City-County Councillor Joseph Simpson (proxy for Councillor Vop Osili) arrived shortly thereafter. Joseph O'Connor (Marion County Assessor/County Commissioner) was absent. Chief Financial Officer Hope Tribble represented Council staff. City-County Councillors Maggie Lewis, Janice McHenry and Jefferson Shreve were also in attendance.

Co-Chair Steele asked commission members to introduce themselves and indicate the entity they represent on the commission.

{Clerk's Note: Mr. Spalding arrived at 6:07 p.m.}

Co-Chair Steele stated that there is a two-page handout (attached as Exhibit A) which details the objectives of the commission, lists its members and meeting dates, and provides a website address where all information presented this evening has been posted. He said that there is also an application on the website that allows a taxpayer to enter their parcel number and compare their current property tax bill to a possible future bill should the homestead credit (HSC) be eliminated. This application will show the taxpayer whether or not there will be any dollar change on their tax bill, should an elimination take place. Co-Chair Steele said that there will be two presentations this evening. The first will be a presentation on the City's finances and revenue streams by the City Controller. The second presentation will be offered by Policy Analytics, LLC, a local fiscal research and analysis firm, and will explain the HSC, what it is, how it was created, and what will happen to individual property tax bills and other units of government if it is eliminated.

Jason Dudich, City Controller, Office of Finance and Management (OFM), provided a 2013 Fiscal Review of the Consolidated City of Indianapolis and Marion County.

{Clerk's Note: A copy of this presentation, along with all other presentations and handouts, is attached to the minutes of the May 29, 2013 meeting of this Commission and can also be found on the Council's Local Homestead Credit Review Commission's web page: <http://www.indy.gov/eGov/Council/Committees/Pages/Local-Homestead-Credit-Review-Commission.aspx>.} Mr. Dudich stated that the City and County has a roughly \$1 billion budget, and the General Fund makes up approximately 54% of that total budget at almost \$540 million. He said roughly 84% of that total General Fund operating budget comes from property tax or income tax revenue. The major income tax revenue is generated by a 1.62% tax rate for Marion County, which is broken into

different pieces: the County Option Income Tax (COIT), the public safety tax, and the property tax levy freeze. That income tax is allocated through a formula determined by State law as to how much goes to the City of Indianapolis, Marion County and other taxing units, such as excluded cities. He reviewed the income tax revenue trends, with some growth from 2008 to 2010, and then a drop from 2011 to 2013. He said that this drop is related to the economic downturn, as well as a delay in property tax distribution. He said that the way these taxes are distributed may not match the current economic trend, as they lag behind a year to two years in distribution. He said that they have lost \$164 million accumulatively in revenue over the past few years, and they need to take action to try and maintain the fiscal stability of the City. He said that while the surrounding counties have increased their percentage of personal income in comparison with the total State income, Marion County has remained relatively the same, and actually decreased a bit, in relation to the overall percentage of personal income for the State of Indiana. They are trying to drive that percentage up and encourage more citizens to stay in Marion County, so that more dollars stay in the City. He said that property tax is the other major source of revenue for the General Fund, which is affected by the fire consolidations, collections and the circuit breaker, and it has remained relatively steady. He said that it is a daunting picture that the City and County is realizing, and little to no growth in revenue sources places a burden on the City to lower expenditures and deplete fund balances. While they are assuming a slight incline in revenue in 2014, that is not guaranteed, and still will not bring them to previous revenue levels. Even with some one-time revenue sources and reductions in expenditures, they are still faced with a structural deficit of approximately \$62.3 million at the end of 2013, with \$26.2 million in cash on hand; and a \$55.5 million deficit projected for the end of 2014, with \$29.3 million on hand. These numbers do not assume the elimination of the homestead credit. He said that currently, \$12.5 million of COIT distribution is set aside off the top for the local homestead credit. The elimination of the local homestead credit would allow that \$12.5 million of COIT to be put into the formula for tax distribution and would provide almost \$8.3 million in potential on-going revenue to the General Fund without an increase in income taxes. He said that there will be a minimal impact on property taxes for those homeowners who are below the cap or are part of a referendum. Mr. Dudich concluded that while the elimination of the homestead credit would not fix all their problems or solve the deficit, they need to look at all options available to them.

{Clerk's Note: Councillor Simpson arrived at 6:21 p.m.}

William Sheldrake, Policy Analytics, LLC, introduced Jason O'Neill who provided commission members and citizens with an overview, history and analysis of the Local Homestead Credit. Mr. O'Neill stated that they are speaking specifically of the COIT homestead credit, which does not include the State-administered homestead deduction or the smaller Local Option Income Tax (LOIT) homestead credit. He said that HSCs become property tax revenue to be distributed to all units in the County that levy property taxes, and essentially replace a portion of the property taxes that residential taxpayers would otherwise pay. Mr. O'Neill said that eliminating the HSC will shift

approximately \$12.8 million in COIT revenue into spendable general revenues for certain civil units. He reviewed the impact of eliminating the credit on taxing units that experience a net revenue increase, as well as those that experience circuit breaker losses. He explained that taxpayers already at their circuit breaker maximum will see no impact, while taxpayers below that maximum and those subject to a school referendum fund levy will see an increase in varying degrees. He gave some examples of different elimination scenarios. The property tax increase with an elimination of HSC would be less than \$30 annually for 81% of Marion County homeowners. He gave some analyses of taxpayer liability on different-priced parcels in different townships. Mr. O'Neill provided a map with a County overview of the impact of removing the HSC, and said that the website also shows a breakdown of that impact by township.

Councillor Pfisterer asked of the 92 Indiana counties, how many still have the HSC. Mr. Sheldrake said that 10 counties still have the COIT HSC. He said that he will provide staff with a table showing these counties, so that it can be included on the website. Councillor Pfisterer asked if a majority of the counties have therefore already eliminated their HSC. Co-Chair Henkel said that many have never actually put the HSC into effect. She said that the property tax replacement credit (PTRC) is a tool that has been taken advantage of by counties more often than the HSC.

Councillor Simpson said that when he looks at his property tax bill, he wishes he could actually get the amount his property is assessed at, should he choose to sell. He asked how the assessed valuation (AV) plays into this. Co-Chair Steele said that it is a challenge when an individual feels their AV exceeds the true market value, but often the AV is based on information from previous years. Co-Chair Henkel said that the AV is based on property sales in the area that took place the year before the bill is issued. She said that one way to address this is for the taxpayer to appeal their AV. Mr. Spalding said that the perception is that the assessors are raising AVs to deal with the property tax caps, but in recent years, there has hardly been any change in AVs in Marion County. Any change is really more a result of reassessment, and the property tax caps are not really the motivation.

Co-Chair Steele called for public testimony.

Kirk Farmer, citizen, stated that the Policy Analytics presentation was very interesting and helpful. He thanked the Commission for holding these community hearings, as he believes they are very beneficial. He said that he is concerned about the fundamentals behind even discussing the elimination of the HSC. He said that the Controller presented information about expenses and income, and how there has been a major decrease in income, or revenue coming in, even though expenditures have stayed relatively even. He said that in this economy, there are many citizens making less money than they used to, and while there are many things they would like to do or want to do, they can no longer afford certain luxuries they may have gotten used to. He said that these individuals adjust their budgets to possibly eat out in restaurants less, send their child to public instead of private schools, take less vacations or trips, etc. He said

that any individual knows that if their income is decreased, they have to adjust the way they live. He said that as circumstances change in his life, he has to make changes about how he spends, and the government should be held to the same standard. He said that they talk about structural versus operational deficits, and they need to look very closely at the expenses associated with the tax-supported General Fund to determine if those expenses are truly operational, versus debt service or other expenditures. He said that there are roughly 150 homes in his neighborhood, and approximately 12 police officers live in the community. This is not a bad thing, but because his neighborhood is fortunate to have this police presence does not mean that all other neighborhoods enjoy the same. He said that they need to first look at cleaning up their expenses versus creating more revenue. Mr. Farmer said that he does not want anyone to lose their job, but they need to be realistic and look at how many non-government employee taxpayers have lost their jobs due to the recession in the last four years. They need to look at the big picture. He added that the tax increment financing (TIF) districts are another factor, as some areas are disproportionately taxed. While the airport is a wonderful facility, the Airport TIF is a black hole and they do not know if it will ever end so that value can be returned to citizens. He said that these types of black holes hurt citizens, schools, fire departments, etc. He concluded that the impact of the elimination of the HSC, as shown on the maps presented, seems inverse to common sense; because it looks as though the people who are hurt the most are those who can afford it least. He asked the commission to look at other issues along with this HSC elimination, as this is just one small piece of the pie.

Kenneth Hull, Speedway Schools, stated that he is a quadruple loser in the HSC elimination scenario. In Speedway, most of their residents are not at the property tax cap. He said that he feels that their residents are going to be paying more because Speedway runs an efficient government. He said that property values are not going up in Speedway, and AVs have gone down for six straight years, along with rates and levies. He said that, therefore, those who are running the most efficient government and are under the property tax cap will get the pleasure of a property tax increase due to this HSC elimination. Co-Chair Steele said that efficient government and individual property owners are two different things. Mr. Hull agreed, but said that in order for the City to make \$8.3 million more in revenue, they are taking away \$3.9 million from their schools. When they take that money away, they are taking away from bus operating levies and educational opportunities for this City's future, the children. Co-Chair Steele said that the \$3.9 million would be the loss for all schools combined, not just Speedway. Mr. Hull said that this is correct, but about 48% of this increase in revenue will be on the backs of schools, and he wants that to be acknowledged openly. If the Commission and Council takes this action to eliminate the HSC, they should also take the responsibility as to the effect on children in these districts. Co-Chair Steele said that Speedway would actually realize an increase in revenue of \$120,000. Mr. Hull said the Town of Speedway would, but he is speaking on behalf of all township school districts. Co-Chair Steele said that as meetings are held in different portions of the County, he anticipates more school officials will also speak to this matter. Co-Chair Henkel said that it looks as though the loss to Speedway Schools should the HSC be eliminated is a

reduction of about \$3,000. Mr. Hull said that this is correct. Mr. Spalding added that the whole story of whether or not a government is efficient cannot be told simply by a low tax rate, as some of this is determined by where the AV is clustered in a taxing district. He said that a high AV in Washington Township also helps to keep taxes down in Speedway, and therefore, those low taxes are not necessarily an indication of efficiency in government.

Sonja Duelberg, Washington Township resident, said that she was not aware of how big the structural deficit of the City was. She said that in 2009, it looks as though the General Fund balance was \$162 million, and by the end of the year it will be only \$26 million. She said that this means that the City has spent down \$135 million of that balance in the last five years. Mr. Dudich said that he is not sure the 2009 number is correct and would have to verify that, but agreed that the fund balance has certainly decreased. Ms. Duelberg said that this is something that surprised her, and it seems that this is a much bigger problem than the elimination of the HSC can address. She said that the City needs to look at what else is being done to address this deficit besides this very small fix.

Pat Landgraf, citizen, stated that the elimination of the HSC is like putting a finger in a dike to stop gushing waters. She said that every year or two the City does a fancy dance to get through the budget, but the bottom line is that government is spending too much money. She said that she voted for the tax caps and the referendum to force government to live within their means. Instead, the City keeps looking for another way to gain new revenue. She asked after enacting all these little pieces, and finding they still have no money, what the City administration will decide to do then. She said she heard that the last SuperBowl cost the City \$1.3 million, yet they are talking about doing it again. She asked where this additional money will come from. Co-Chair Steele said that the SuperBowl funds come from the Capital Improvement Board (CIB) and are not related to this HSC elimination.

Grace Colette, realtor, said that she is glad to pay her taxes. She said that when she fell and hit her head or when her son's car caught on fire in her driveway, she called 9-1-1 and help arrived quickly. She said that as a realtor, though, she looks at a lot of property tax forms, generally on the northwest side, and there are actually a lot of AVs that are lower than the purchase price on the homes she has dealt with. She said that her concern is with regard to people who do not live in a house, yet claim a homestead credit and get the benefit of those deductions, when they are not paying their fair share of taxes. She asked what is being done to monitor this process. She suggested they hire auditors and slam those who do not live in their homes to pay the 2%. She said if there were better monitoring of this situation, maybe she would have to pay less for her fair share. Co-Chair Steele said that the Auditor's Office implemented a program a year and a half ago to look at those types of violations. Co-Chair Henkel added that the entire State is coming down on that issue, with various counties facing the same dilemma. She said that people are now being served with bills going back three years for those violations. She said that it will go into full effect this year. Ms. Colette asked if

there is any place to report these properties. Co-Chair Steele said that they should contact the Auditor's Office. Councillor Sandlin said that in every real estate closing, a homeowner must check on their sales disclosure form whether or not they are claiming a homestead credit or not. Those are available as a matter of public record, and they can look at them and see if a credit has been falsely claimed. He said that the Auditor's Office will then send out a form and ask for information that has been attested. This is the mechanism that is in place for monitoring that issue. Ms. Colette said that if the person is committing fraud already by claiming the HSC when they are not eligible, then they will sign the form and send it in anyway, thereby perpetuating the fraud. Co-Chair Henkel said that a new database is being developed that will check into that. Councillor Pfisterer said that the Auditor gave a report several months ago to the Administration and Finance Committee of the City-County Council. She said that the report was actually regarding the homestead exemption, not the HSC; of which there were about 45,000 filed. She said that as she recalls, at the six-month mark of the monitoring program, the Auditor reported that they had already recovered about \$1 million in property taxes that should have been paid. She said that the Auditor is looking at this issue and reviewing it property by property.

Anita White, Wayne Township resident, stated that her taxes are not that bad and she appreciates the commission holding meetings to inform the citizens on this issue. She asked if her neighbors fix up or remodel their houses around hers, if her taxes will then go up, as well. Co-Chair Steele said that if remodeling is done on a home, it could very well cause the AV to increase; and therefore, the taxes might increase. It should not, however, affect her taxes unless she is the one doing the remodeling. Mr. Spalding said that over the long term, it may actually affect her taxes because it could change the overall values in that particular market and could affect the assessment of non-remodeled surrounding homes. Co-Chair Steele said that this would not happen immediately, though, and is not guaranteed; but a change in the neighborhood market value could affect future taxes. Co-Chair Henkel said that it is difficult to do a mass appraisal. She said that the homeowner could still appeal the appraisal and challenge the fact that the property is not worth its assessed valuation.

Ms. Colette stated that the appeal process currently takes a very long time to complete. Ms. Henkel said that she agrees it is a very long process.

Pheola Akers, Washington Township resident, said that this meeting space and set-up is not conducive for people to hear, and she feels like those sitting at the table are speaking to one another as if the citizens are not even here. She suggested that if they are holding these meetings in this type of venue, it would be advantageous to have microphones set up so people can hear. Co-Chair Steele agreed and said that they will work to remedy that in the future. Ms. Akers said that she is old and gets confused easily. Even though she signed up for the HSC, she still does not know what it is all about. She said that she would appreciate them putting it out there in a simple way that all can understand. She said that using specialized terms and fancy graphs just

confuses her more, and she would prefer they put the information in a simple top-ten list format to help citizens understand.

Fred Armstrong, IndyGo, stated that most violations with regard to the HSC are people who live in Indianapolis and also have a second home in another city. He said that there is not really a way to find them all, as they cannot build a file that reaches across states. Ms. Henkel said that they actually do have those capabilities now, and she knows of one individual who had a house in Indianapolis and another in Illinois, and he got hit with a bill going back three years for collections in Indiana. She said that Indiana is just now adopting this database resource and will be able to find more people who have more than one home, as an individual can only receive one homestead credit.

Councillor Pfisterer referred to the next three upcoming meetings, and said that she understands these meetings were put together quickly and are all coming in quick succession. She said that outside of City staff and Councillors, she figures there are about 15 citizens in attendance, and she feels that this meeting has not reached as many taxpayers as she would like to see reached. She said that in light of that, she has made arrangements for a non-commission forum to be held at Ben Davis High School on June 18, 2013 at 6:00 p.m., where they will have adequate audio and visual equipment for additional input.

Co-Chair Steele explained the timeline and said that it is a very quick process. He said that the community meetings will continue through next week, with a final commission meeting on June 24, 2013 to finalize and vote on recommendations. The plan is to submit a proposal for introduction at the full Council meeting on July 8, 2013. The proposal will then go to the Administration and Finance Committee, which will be presented with the recommendations of the commission. The Committee will hopefully vote to recommend the proposal to the full Council for final action. They are hoping for a full Council vote on the proposal at the July 29th Council meeting, so that the recommendation can be taken into account by the City Controller before presenting the budget at the August 19th Council meeting. Co-Chair Steele said that he realizes this schedule is very compressed, but he thinks it is important for the Controller to know the result of this action before the budget is introduced, so that it can be factored into the budget. He said that this is critical information needed to submit the budget. He thanked those in attendance for coming and for their valuable input. He said that the commission will take into consideration all the comments that have been made as they deliberate this matter.

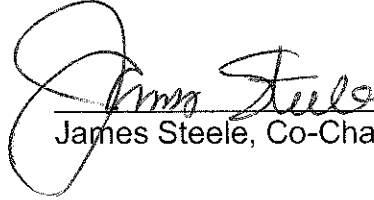
Co-Chair Steele stated that the next community meeting will be Monday, June 3, 2013 at the Library Services Center, 2450 N. Meridian Street.

There being no further business, and upon motion duly made, the meeting was adjourned at 7:28 p.m.

Respectfully Submitted,

A handwritten signature in cursive script, appearing to read "Beth Henkel", written over a horizontal line.

Beth Henkel, Co-Chair

A handwritten signature in cursive script, appearing to read "James Steele", written over a horizontal line.

James Steele, Co-Chair

BH:JS/ag

LOCAL HOMESTEAD CREDIT REVIEW COMMISSION

Planning Document – Subject to revision and update

The Local Homestead Credit Review Commission is a bi-partisan study group that was enacted by City-County Council Proposal 121, which also has been signed by the Mayor.

OBJECTIVES

- Educate the community about the homestead credit
- Review the implications, effects on the budgets of all property tax supported units
- Receive public input on these decisions
- Make a recommendation to the Council based on findings

MEMBERSHIP

The commission will consist of 10 members, as follows:

1. Two co-chairs, no more than one from the same political party, jointly appointed by the Council President and the Mayor. The co-chairs must have expertise in municipal finance and local property tax
2. Four city-county councillors, no more than two from the same political party. Two of the councillors will be appointed by the City-County Council President and the City-County Council Minority Leader, respectively
3. A representative of the Metropolitan Indianapolis Board of Realtors (MIBOR), appointed by the Mayor
4. A representative of the civil units, schools and municipal corporations that receive property taxes, appointed by the Council President.
5. A County Commissioner, appointed by the Council President
6. The City Controller or designee

PROSPECTIVE MEMBERS

Beth Henkel, Co-Chair

Jim Steele, Co-Chair

Bob Lutz, City-County Councillor (R)

Frank Mascari, City-County Councillor (D)

Joe O'Connor, Marion County Assessor

Vop Osili, City-County Councillor (D)

Chris Pryor, MIBOR

Jack Sandlin, City-County Councillor (R)

Dan Sellers, CFO, Health and Hospital Corporation

Jeff Spalding, City Controller's Designee

GENERAL OPERATING GUIDELINES

- The Commission will meet and begin its operations as soon as practical
- After its initial meeting, the commission will meet upon the call of its co-chairs or a majority of its members
- Six members of the commission will constitute a quorum
- Reports of the committee will only be approved by vote of 6 members or more
- Any vacancy on the commission will be filled in the same manner in which the original appointment was made

LOCAL HOMESTEAD CREDIT REVIEW COMMISSION

Planning Document – Subject to revision and update

- The commission will conduct public meetings in representative and various places in the community, provide information about the homestead tax credit, receive testimony from the public and submit its recommendation to the Council by July 15, 2013¹
- The Commission will receive staff support from the Council and Office of Finance and Management.

MEETING AGENDA TOPICS

The Commission will convene five informational public hearing meetings, one each in the north, south, east, west and downtown areas of the county, then a sixth meeting to present its recommendations.

The following is a recommended agenda ² for each meeting:

1. Present an analysis of local revenue, including retrospective and projected illustrations of trends, highlighting the effects of economic conditions and state enacted property tax caps, and a conclusion about whether there is a need to reduce or eliminate the Local Homestead Credit.
2. What the local homestead credit is (and is not).
3. History of the local homestead credit and why a property tax credit is funded by local income tax revenue.
4. How the local homestead credit is applied to taxpayers' bills.
5. Effect of property tax caps on the application of the local homestead credit.
6. How the local homestead credit affects the budgets of civil taxing units other than the City and County.
7. Which neighborhoods and types of homes benefit from the local homestead credit despite property tax caps.
8. Whether changes in state law relating to income tax distribution and the local homestead credit are desirable.

MEETING SCHEDULE

1. Community Meeting (SOUTH): Wednesday, May 29, 2013, 6pm - Perry Township Government Center, 4925 Shelby Street, 46227
2. Community Meeting (WEST): Thursday, May 30, 2013, 6pm - Municipal Gardens, 1831 Lafayette Road, 46222
3. Community Meeting (CENTRAL): Monday, June 3, 2013, 6pm - Library Services Center, 2450 N. Meridian Street, 46208
4. Community Meeting (NORTH): Tuesday, June 4, 2013, 6pm - Fay Bickard Glick Neighborhood Center (formerly Crooked Creek Community Center), 2990 W. 71st Street, 46268
5. Community Meeting (EAST): Wednesday, June 5, 2013, 6pm - Warren MSD Education and Community Center, 975 N. Post Road, 46219
6. Commission Report and Recommendation: Monday, June 24, 2013, 6pm - City-County Building, Room 118, 200 E. Washington Street, 46204

ACCESS TO INFORMATION

The commission will establish a web page that provides access to the commission documents and information, including the ability for members of the public to look up the projected impact of the continuation or elimination of the local homestead credit.

The web page has been established at the following link:

<http://www.indy.gov/eGov/Council/Committees/Pages/Local-Homestead-Credit-Review-Commission.aspx>

¹ This is the outside date for completion. Given the budget timeline, if possible, the report should be completed sooner

² Item #1 to be presented by the Controller; Items 2 – 8 to be presented by Policy Analytics